



International Agricultural Trade Report

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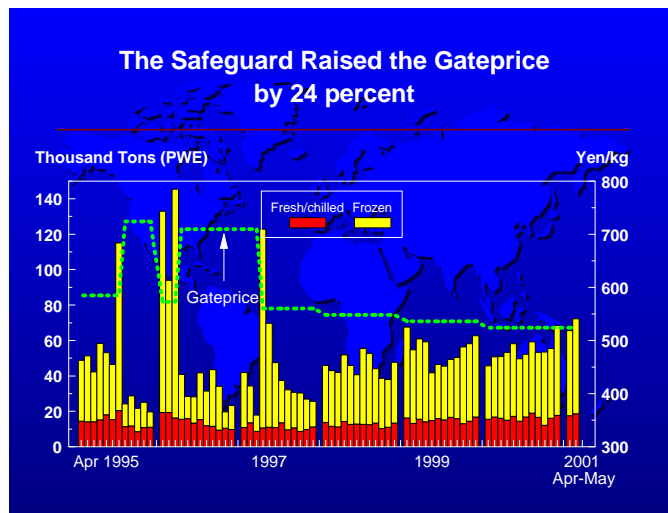
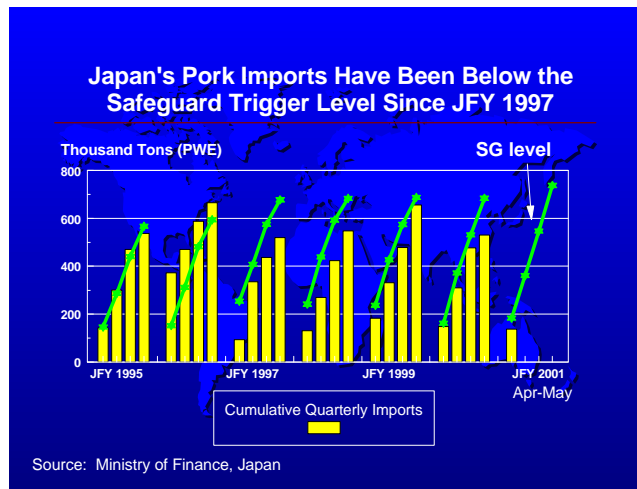
Livestock Market Report: Japan's Safeguard on Pork Imports

There is growing concern that Japan's safeguard measure on pork imports will be triggered when June 2001 import data is compiled, as stepped-up imports in April and May left little volume remaining in the April-June quarter. The safeguard, last triggered following the April-June quarter of 1996, was negotiated under the Uruguay Round Agreement to protect Japan's domestic pork industry from import surges. The safeguard, if triggered, will raise the price of imported pork to end users, distort trade flows, and will likely effect U.S. pork exports.

Pulling the Trigger on Pork Imports?

When quarterly pork imports in the Japanese fiscal year (JFY, April 1/March 31) surge more than 19 percent above average imports in the previous three JFY, the safeguard is triggered. This raises the mandated minimum import price (a so-called gate price) by 24 percent, from 524 yen/kg (\$1.93/lb) to 653 yen/kg (\$2.41/lb). Once triggered, the increased gate price remains in effect for the rest of the fiscal year. The import duty of 4.3 percent remains unchanged.

Japan's Ministry of Finance data show that imports of pork products subject to the safeguard measure totaled 138,300 tons for April and May this year. The safeguard trigger level for the April/May/June quarter of the current fiscal year is set at 183,850 tons. To avoid



triggering the safeguard measure, reported June imports must be restricted to 45,550 tons. However, the average June imports over the past three years were 51,000 tons. Release of this year's June import data is imminent. If triggered, the safeguard will be in effect from August through March 2002.

Pork imports in May were particularly large at 72,520 tons as Japan increased imports from the United States, Canada, and Mexico partly due to foot-and-mouth disease (FMD) in the EU. In response to the outbreak, Japan placed a temporary ban on pork imports from

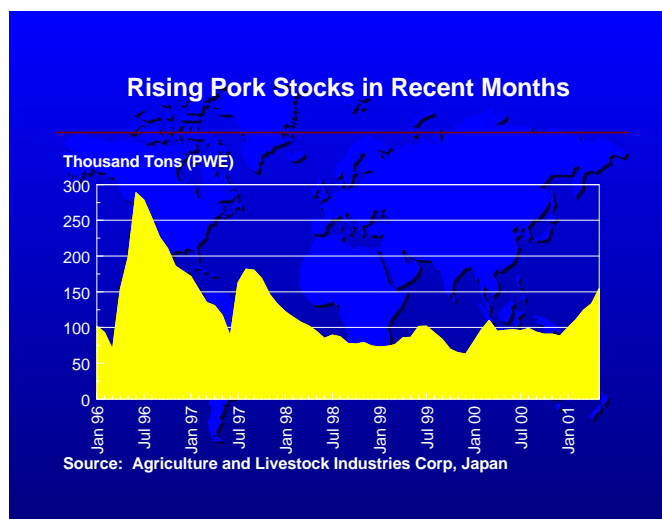
all the EU in March 2001. Shipments en route from the EU were directed to bonded warehouses, while purchases from other suppliers increased to compensate. On April 25, Japan lifted the import ban on pork from Denmark, Sweden, Finland, and Austria. This decision allowed not only the release of pork products from those four countries held in bonded warehouses, but allowed importers to once again secure supplies from Denmark, a major supplier of frozen pork to the Japanese market. The combination of pork released from storage and new arrivals lifted pork imports from Denmark 47 percent in May compared to the same month last year.

Potential Impact Of the Differential Duty System on Pork Trade Flow

It is unclear the precise effect a “triggered” safeguard would have on U.S. pork exports to Japan. In JFY 1996, the last time it was triggered, the measure had its largest effect on frozen pork purchased from Denmark and Taiwan. At that time, as Japanese importers hoarded stocks in anticipation of the safeguard, they also purchased more than 65,000 tons of U.S. frozen pork, mostly in the period immediately prior to the time the safeguard was triggered. This was a record high volume for frozen pork imports from the United States until JFY 2000 when 72,218 tons of U.S. frozen pork was imported. Japan’s imports of fresh/chilled pork from the United States have been growing at a steady pace from JFY 1995 to JFY 2000.

While it is possible that U.S. fresh/chilled pork exports to Japan may not be substantially affected, the price effect of the safeguard will distort the market. The increase in the gate price will cause importers and exporters to determine a mix of products to meet the arbitrary gate price, not to reflect market conditions.

Japanese importers have reportedly deferred the customs clearance of significant amounts of frozen pork shipments that arrived in June to the current quarter to ease pressure on the first quarter’s import level and to avoid triggering the safeguard. The Japanese government is reportedly not anxious to precipitate market disruption by implementing the safeguard measure. However, there are concerns that the situation provides an incentive to some speculators to increase imports in order to trigger the measure and thus capture windfall gains when prices rise. Japan’s Agriculture and Livestock Industries Corporation (ALIC) data show a steady rise in stocks since last January and that wholesale prices of imported pork products in Japan have softened. For example, U.S. chilled pork tenderloin prices in Japan dropped from \$375.26/cwt in May to \$337.45/cwt in June. There are also reports that July imports are robust, possibly reflecting anticipation by the trade that the safeguard will be triggered.



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